



Gene Walborn
Director

Montana Department of Revenue



Steve Bullock
Governor

April 22, 2019

Steven Ingram
208 S. Akard St.
18th Floor
Dallas, TX 75202

Re: Response to Comments on the 2019 Capitalization Rate Study,
Telecommunications

Dear Mr. Ingram:

The department would like to thank you for taking the time to review our study and for providing additional information for us to consider. Your submission email received April 8, 2019 was reviewed and considered.

Based on all the comments received and further analysis of the industry and guideline companies it was determined that the department should develop a separate study for large telecommunications companies. This resulted in AT&T and Verizon being removed as guideline companies from the general telecommunications study and put into a separate study intended for large telecommunications companies.

Through additional analysis it became clear that AT&T and Verizon are no longer comparable to many of the smaller companies in the industry. For example, the following items are some of the biggest areas impacted by the size differences between AT&T/Verizon and the other guideline companies:

Capital Structure

On the Support for Capital Structure page of the department's original 2019 Capitalization Rate Study. AT&T and Verizon made up 74% of the total Market Value of Equity and 60% of the total Market Value of Debt.

Beta

On the Support for Beta Selection in CAPM page again it is clear that AT&T and Verizon skew the results. AT&T and Verizon's Betas are below 1 whereas all but 1 of the remaining guideline companies are above 1. Many in the range of 1.5 times to 2 times higher than the average beta of AT&T and Verizon.

Debt Rating

AT&T and Verizon are the only guideline companies with investment grade debt ratings. This results in a considerable difference in the cost of debt for AT&T and Verizon as compared to the other guideline companies in the study.

Other

Similar impacts are seen through the entirety of the study.

Based on our analysis, AT&T and Verizon being in the study results in an underestimation of the cost of capital for most companies in the telecommunications industry and overstates the cost of capital for the largest and most dominant companies in the industry. As such the department felt it was necessary to develop a separate study for large telecommunications companies. This study is intended for companies with an expected Market Value of Invested Capital greater than \$200 Billion.

Again, I would like to thank you for your comments and the additional information you provided for our consideration and I look forward to any further discussion we may have throughout the 2019 appraisal season.

Our final 2019 Cost of Capital Study for Telecommunications and the 2019 Cost of Capital Study for Large Telecommunications can be found at:

<https://mtrevenue.gov/publications/cap-rate-studies/>

Sincerely,

A handwritten signature in black ink that reads "Doug Roehm". The signature is fluid and cursive, with a long horizontal stroke at the end.

Doug Roehm, Unit Manager
Centrally Assessed & Industrial Properties
Montana Department of Revenue
PO Box 7149 | Helena, MT 59604